

Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana

Annual Financial Report
December 31, 2004 and 2003

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 6-22-05

Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana

Annual Financial Report
December 31, 2004 and 2003
With Supplemental Information Schedules

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William R. Durden

Certified Public Accountant

Limited Liability Company

820 11TH AVENUE
FRANKLINTON, LOUISIANA 70438
(985) 839-4413
FAX (985) 839-4402

MEMBER
A.I.C.P.A.

MEMBER
L.C.P.A.

Board of Commissioners
Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana

I have reviewed the accompanying financial statements of the business-type activities of the Varnado Waterworks District, a component unit of the Washington Parish Government, as of and for the fiscal year ended December 31, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents, and the accompanying management's discussion and analysis, and supplementary information schedules on pages 3 through 10 and 28 through 32 respectively, which are presented only for supplementary analysis purposes, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the board of commissioners of the Varnado Waterworks District.

A review consists principally of inquiries of the District's personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I do not express such an opinion.

Based on my reviews, I am not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The management's discussion and analysis, on page 3 through 10, is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board.

(continued)

William R. Durden

Certified Public Accountant

Limited Liability Company

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FRANKLINTON, LOUISIANA 70438
(985) 839-4413
FAX (985) 839-4402

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L.C.P.A.

My review was made for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles. The information included in the management's discussion and analysis, and accompanying supplementary schedules, pages 3 through 10 and 28 through 32 are presented only for supplementary analysis purposes. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and I am not aware of any material modifications that should be made to them

William R. Durden
William R Durden CPA, LLC

May 31, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana

Management's Discussion and Analysis

Introduction

Varnado Waterworks District is pleased to present its Annual Financial Report developed in compliance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis - For State and Local Governments* (hereinafter referred to as GASB 34), and related standards. Please read the following in conjunction with the District's financial statements and footnotes, which follow this section.

Financial Highlights

- Total assets for the year were \$3,138,590 at December 31, 2004, and exceeded liabilities in the amount of \$2,298,575 (i.e., net assets). Of the total net assets, \$1,324,201 was unrestricted and available to support short-term operations, with the balance invested in capital assets, net of related debt, or restricted for capital activity and debt service.
- User fee revenues (water sales) for the fiscal year ending December 31, 2004 remained relatively constant increasing to \$383,503 representing an approximate 1.10% increase from the total user fees of \$383,095 for the fiscal year ending December 31, 2003. One of the reasons for the stability in total water sales was that there was only a small increase in the number of customers from December 31, 2003 to December 31, 2004.
- The District's operating expenses, not including depreciation expense, totaled \$309,926 for the fiscal year ended December 31, 2004. This represented a \$13,970 (4.31%) decrease from operating expenses excluding depreciation expense for the fiscal year ended December 31, 2003. The most significant item was a decrease of \$11,678 in insurance expense.
- Total long-term debt decreased from \$810,578 at December 31, 2003, to \$765,444 at December 31, 2004. The decrease is due primarily to the payment of principal on outstanding bonds.
- Construction is substantially complete on the \$561,000 new well (Site # 4) funded by the Louisiana Community Development Block Grant (LCDBG). Funding from the USDA Rural Development Office, consisting of a Rural Development Grant of \$1,156,000, and a Rural Development loan of \$2,744,000 will provide a water distribution system to approximately 360 new customers in the "Pine Area".

Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana

Management's Discussion and Analysis

Overview of Annual Financial Report

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A presents an overview of management's examination and analysis of Varnado Waterworks District's financial condition and performance.

The financial statements report information on the District using full accrual accounting methods similar to those used in the private business sector. Financial statements include the Balance Sheet, Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. The Balance Sheet provides information about the nature and amount of the District's resources and obligations at year-end, and provides a basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The Statement of Revenues, Expenses, and Changes in Net Assets, accounts for the revenues and expenses for the fiscal year, and provides information on how net assets changed during the year. This statement measures the success of the District's operations in a format that can be used to determine if the District has recovered its costs through user fees and other charges.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and provides information on the source of cash receipts, what the cash was used for, and the total change in cash for the reporting period.

The notes to the financial statements provide required disclosures essential to an understanding of the financial statements. The notes present information about the District's accounting policies, significant account balances and activities, commitments, contingencies, and subsequent events, if any. Supplementary information includes a comparative budget schedule, key information schedules on operation of the District, and schedules detailing findings, from agreed-upon procedures, and management's response.

Financial Analysis

The purpose of financial analysis is to help determine whether Varnado Waterworks District is better off as a result of the current year's activities. In this analysis, data from two of the basic financial statements, the Balance Sheet, and the Statement of Revenues, Expenses, and Changes in Net Assets, are presented below in condensed format. These statements report the net assets, the difference between assets and liabilities, and the change in net assets, which provides information on the financial condition of the District. Following these statements is a separate schedule summarizing and analyzing budget changes for the current fiscal year.

Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana

Management's Discussion and Analysis

Condensed Balance Sheet

	December 31, 2004	December 31, 2003	Dollar Change	Percent Change
Current and Other Assets	\$ 1,644,619	\$ 1,521,178	\$ 123,441	8.11%
Capital Assets	1,493,971	1,555,585	(61,614)	-3.96%
Total Assets	<u>\$ 3,138,590</u>	<u>\$ 3,076,763</u>	<u>\$ 61,827</u>	2.01%
Long-Term Debt Outstanding	\$ 765,444	\$ 810,578	\$ (45,134)	-5.57%
Other Liabilities	74,571	40,084	34,487	86.04%
Total Liabilities	<u>840,015</u>	<u>850,662</u>	<u>(10,647)</u>	-1.25%
Invested in Capital Assets, Net of Related Debt	703,551	745,007	(41,456)	-5.56%
Restricted for Capital Activity and Debt Service	270,823	261,389	9,434	3.61%
Unrestricted	1,324,201	1,219,705	104,496	8.57%
Total Net Assets	<u>2,298,575</u>	<u>2,226,101</u>	<u>72,474</u>	3.26%
Total Liabilities and Net Assets	<u>\$ 3,138,590</u>	<u>\$ 3,076,763</u>	<u>\$ 61,827</u>	2.01%

The major component of change for "Current and Other Assets" is a \$74,813 increase in operating cash, a \$34,490 increase in the value of investments, and an increase of \$11,196 in deposits for meter connections fees for the Pine Area project.

"Capital Assets" decreased by \$61,614, reflecting increases of \$7,286 for construction costs connected with the LCDBG grant, \$24,976 for a new metal building to house operating equipment of the District, \$32,591 for an excavator and trailer, \$986 for miscellaneous equipment, less the depreciation recorded on capital assets of \$127,453, for the fiscal year ended December 31, 2004.

The decrease in "Long-Term Debt Outstanding" of \$45,134 is due to payment of principal on existing water revenue bonds for the District. A more detailed analysis of the changes in long-term debt is included in a following section entitled "Long-Term Debt Activity".

"Other Liabilities" increased by \$34,487 representing a 86.04% increase primarily because of a payable of \$24,976 for the unpaid construction cost of the new equipment building.

"Total Net Assets" (total assets less total liabilities) increased by \$72,474 for the fiscal year ending December 31, 2004, for the reasons noted in the paragraphs above.

Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana

Management's Discussion and Analysis

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	Year Ended December 31, 2004	Year Ended December 31, 2003	Dollar Change	Percent Change
Revenues:				
Operating Revenues	\$ 503,746	\$ 496,721	\$ 7,025	1.41%
Non-Operating Revenues	53,386	27,737	25,649	92.47%
Total Revenues	<u>557,132</u>	<u>524,458</u>	<u>32,674</u>	6.23%
Expenses:				
Depreciation Expense	127,453	117,747	9,706	8.24%
Other Operating Expense	309,926	323,896	(13,970)	-4.31%
Non-Operating Expense	47,279	49,285	(2,006)	-4.07%
Total Expenses	<u>484,658</u>	<u>490,928</u>	<u>(6,270)</u>	-1.28%
Changes in Net Assets	72,474	33,530	38,944	
Beginning Net Assets	2,226,101	2,192,571	33,530	
Ending Net Assets	<u>\$ 2,298,575</u>	<u>\$ 2,226,101</u>	<u>\$ 72,474</u>	

While the Balance Sheet shows the change in financial position of net assets, the Statement of Revenues, Expenses, and Changes in Net Assets provides answers to the nature and scope of these changes. The above table gives an indication of how Varnado Waterworks District is being conservatively managed. Total "Operating Revenues" (including water sales and revenues related to providing water and related services to customers) remained fairly constant, as did the number of customers served by the District, with "Operating Revenues" increasing by \$7,025. Non-operating Revenues, consisting of interest income, income on investments, and miscellaneous items increased by \$25,649. This increase was reflected primarily in interest income of \$22,113, and a net increase of \$1,608 in the "Fair Market Value of Investments". For the category of expense most controllable by the District, "Other Operating Expense", there was a \$13,970 decrease from the prior year with the main component consisting of a \$11,678 decrease in insurance costs. "Other Operating Expense" includes expenditures for operations, other than for "Depreciation Expense". Depreciation expense increased by \$9,706 with the addition of capital assets, and "Non-Operating Expense", which includes interest expense remained relatively constant.

The District showed a positive Change in Net Assets of \$72,474 for the fiscal year ended December 31, 2004, as compared to \$33,530 for the fiscal year ended December 31, 2003.

Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana

Management's Discussion and Analysis

Budgetary Highlights

Varnado Waterworks District adopts an annual operating budget in accordance with requirements of the United States Department of Agriculture, Rural Utilities Service. This budget provides an estimate for the current fiscal year of the proposed expenditures and the revenues that will finance the operations of the District. The operating budget is adopted before the end of the prior fiscal year, and is amended by the Board of Commissioners after review of monthly budget-to-actual financial reports. A summary of the approved budget is presented below in a condensed format summarizing major revenue and expenditure categories, and is followed by analysis of significant variations between budget and actual amounts. Although not presented as a part of the basic financial statements, a more detailed schedule is also presented in "Schedule 1 - Budgetary Comparison Schedule", as supplementary information.

Budget vs. Actual - Fiscal Year Ended December 31, 2004

	Budget Year Ended December 31, 2004	Actual Year Ended December 31, 2004	Favorable (Unfavorable) Variance
Revenues:			
Operating	\$ 496,810	\$ 503,746	\$ 6,936
Non-Operating	53,000	53,386	386
Total Revenues	<u>549,810</u>	<u>557,132</u>	<u>7,322</u>
Operating Expenses:			
Accounting	16,500	14,365	2,135
Depreciation	120,000	127,453	(7,453)
Director Fees	3,600	4,020	(420)
Insurance	53,000	51,910	1,090
Maintenance Supplies	25,000	22,533	2,467
Office Expense	9,600	8,860	740
Operations & Maintenance Contract	13,200	13,325	(125)
Payroll Taxes	10,500	9,883	617
Repairs & Installations	12,000	7,961	4,039
Salaries	117,000	117,605	(605)
Telephone	3,800	3,880	(80)
Travel	1,200	1,195	5
Utilities	46,000	45,442	558
Other Operating Expenses	13,000	8,947	4,053
Total Operating Expenses	<u>444,400</u>	<u>437,379</u>	<u>7,021</u>
Non-Operating Expenses:			
Bad Debt Expense	-	1,363	(1,363)
Interest Expense	49,000	45,916	3,084
Total Non-Operating Expenses	<u>49,000</u>	<u>47,279</u>	<u>1,721</u>
Total Expenses	<u>493,400</u>	<u>484,658</u>	<u>8,742</u>
Income (Loss) Before Capital Contributions	<u>\$ 56,410</u>	<u>\$ 72,474</u>	<u>\$ 16,064</u>

Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana

Management's Discussion and Analysis

Budgetary Highlights (continued)

There was no significant variation between budgeted and actual "Operating" and "Non-operating Revenues", with the District showing an overall \$7,322 excess of actual total revenues over final budgeted total revenues. Actual "Operating Expenses" were \$7,021 below final budgeted "Operating Expenses". These factors, in addition to an overall positive variation in "Non-Operating Expenses", resulted in a positive variation of \$16,064 in actual income compared to final budget income.

Other Significant Trends and Account Changes

Included within this section is first a listing and analysis of general trends and operating data affecting the operation of the District. This is followed by an analysis of any significant account changes, not included within other sections of the Management's Discussion and Analysis.

General Operating Data

	December 31, 2004	December 31, 2003	Increase (Decrease)
Customers:			
Residential	1,372	1,354	18
Commercial	18	18	-
Schools	5	5	-
Prison	1	1	-
Total	1,396	1,378	18

The above table shows a customer increase of 18 from the prior fiscal year.

One key measure of a water district's profitability, and the ability to generate positive cash flows, is the ability of the water system to collect accounts receivable on a timely basis. Presented below is an aged receivable listing for the fiscal years ending December 31, 2004, and 2003.

	Year Ended December 31, 2004	Year Ended December 31, 2003	Increase (Decrease)
0 - 30 Days Past Due	\$ 30,134	\$ 32,105	\$ (1,971)
31 - 60 Days Past Due	5,514	5,355	159
61 - 90 Days Past Due	1,396	1,361	35
Over 90 Days Past Due	794	544	250
Total Accounts Receivable for Water (Before Allowance for Bad Debts)	\$ 37,838	\$ 39,365	\$ (1,527)

There were no significant changes in the aging of receivables from the prior fiscal year, although there continues to be customers within the "31-60 days" category that are not paying billings on a timely basis.

Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana

Management's Discussion and Analysis

Capital Assets

At the end of the fiscal year ending December 31, 2004, the District had \$1,493,971 (net of accumulated depreciation) recorded in capital assets. This includes water systems and improvements, the District's investment for the office building and storage for water system equipment and supplies, land owned for the office building site and for water well locations, and equipment and machinery, including vehicles, for water system operation. The changes in capital assets are presented in the table below.

	December 31, 2004	December 31, 2003	Dollar Change	Percent Change
Land	\$ 35,512	\$ 35,512	\$ -	0.00%
Buildings	148,154	123,178	24,976	20.28%
Vehicles	10,727	10,727	-	0.00%
Equipment	53,891	21,300	32,591	153.01%
Furniture and Fixtures	58,384	58,384	-	0.00%
Water Distribution System	3,245,360	3,244,374	986	0.03%
Construction in Progress	76,086	68,800	7,286	10.59%
Subtotal	3,628,114	3,562,275	65,839	1.85%
Less: Accumulated Depreciation	(2,134,143)	(2,006,690)	(127,453)	6.35%
Net Capital Assets	<u>\$ 1,493,971</u>	<u>\$ 1,555,585</u>	<u>\$ (61,614)</u>	-3.96%

"Net Capital Assets" decreased by \$61,614, reflecting increases of \$7,286 for construction costs connected to the LCDBG grant, \$24,976 for a new metal building to house operating equipment, \$32,591 for an excavator and trailer, \$986 for miscellaneous equipment, less the depreciation recorded on capital assets of \$127,453, for the fiscal year ended December 31, 2004.

Long-Term Debt Activity

The primary source of long-term financing for the District's water system improvements is revenue bonds financed by the United States Department of Agriculture, Rural Utilities Service (RUS); although, one of the revenue bonds was refunded by a private lending institution as Revenue Refunding Bonds, Series 2002. Interim financing, pending completion of construction, is generally financed by private financial institutions, or through low-interest programs of the Louisiana Public Facilities Authority. Interest rates for long-term debt financed through RUS and a private lending institution at December 31, 2004, range from 5.0% to 5.875%, with initial payment terms for bonds generally at 40 years.

Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana

Management's Discussion and Analysis

Long-Term Debt Activity (continued)

Bonds financed for Varnado Waterworks District do not generally require a specific debt to net income or net cash flow ratio, but bond restrictions do state that the District must set its water rates at a level necessary to fund debt service requirements and to pay for the normal operating expenses of the District. One measure of the operating performance of the District is the "Debt to Net Assets" ratio. This measure, viewed over time, yields a comparison of how the District has maintained a workable ratio of total debt to net resources of the District. An increase over an extended period of time would indicate that the District is increasing debt in relation to its operating performance, and management should analyze other factors, such as overall profitability, to ensure that total debt is increased only in relation to the income that will be earned by financed expansions. Two variations of the Debt to Assets Ratio, Total Debt to Net Assets and also Total Long-Term Debt to Net Assets, are presented below. As indicated, the ratios are only a measure of performance and should be reviewed over an extended period of time in combination with other factors that indicate the profitability of the District.

	December 31, 2004	December 31, 2003
Total Long-Term Debt	\$ 718,355	\$ 766,571
Total Debt	765,444	810,578
Total Net Assets	2,228,575	2,226,101
Total Debt to Net Assets Ratio	0.33	0.36
Total Long-Term Debt to Net Assets Ratio	0.31	0.34

Varnado Water District has managed the District conservatively, maintaining a favorable ratio of debt to water system assets.

Future Economic Plans

The Varnado Waterworks District's management approach is conservative. The Board of Commissioners actively monitors revenues and expenses and evaluate the costs of proposed expansion projects. Whenever possible the District obtains grant funds for expansion projects to lower the costs of services to its customers. The Louisiana Community Development Block Grant Program (LCDBG) funded through a \$561,000 grant to the Washington Parish Council, is substantially complete, and will provide needed services for customers of the District, providing a new well (LCDBG well site # 4). Funding from the USDA Rural Development Office, consisting of a Rural Development grant of \$1,156,000, and a Rural Development loan of \$2,744,000 will provide water to approximately 360 new customers in the "Pine Area". At the time of this report, the Pine Area project was being finalized for formal bid advertisement.

FINANCIAL STATEMENTS

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

Statement A

**Balance Sheet
December 31, 2004 and 2003**

Assets	<u>2004</u>	<u>2003</u>
Current Assets:		
Cash - Operating	\$ 816,199	\$ 741,389
Investments	459,183	434,703
Accounts Receivable (Net)	35,967	37,397
Accrued Billings	13,028	11,155
Accrued Interest	3,053	0
Due From Other Governments	10,188	7,549
Prepaid Insurance	4,321	9,012
Total Current Assets	<u>1,341,939</u>	<u>1,241,205</u>
Restricted Assets:		
Cash - Customer Deposits	2,059	2,036
Cash-Pine Addition Connection Fees	11,196	0
Bond Reserve Account:		
Cash	26,329	26,007
Investments	73,504	69,017
Depreciation & Contingency Account:		
Cash	99,158	98,005
Investments	90,434	84,911
Total Restricted Assets	<u>302,680</u>	<u>279,976</u>
Capital Assets:		
Land	35,512	35,512
Buildings	148,154	123,178
Office Equipment	10,727	10,727
Machinery & Equipment	53,891	21,300
Vehicles	58,384	58,384
Water Distribution System	3,245,360	3,244,374
Construction In Progress	76,086	68,800
Total Capital Assets	<u>3,628,114</u>	<u>3,562,275</u>
Less: Accumulated Depreciation	<u>-2,134,143</u>	<u>-2,006,690</u>
Net Capital Assets	<u>1,493,971</u>	<u>1,555,585</u>
Total Assets	<u>\$ 3,138,590</u>	<u>\$ 3,076,766</u>

The accompanying notes are an integral part of these statements.

(Continued)

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

Statement A

**Balance Sheet
December 31, 2004 and 2003**

Liabilities and Net Assets	2004	2003
Liabilities:		
Current Liabilities (Payable From Current Assets):		
Accounts Payable	\$ 31,435	\$ 9,713
Accrued Audit Fees	3,400	3,400
Sales Tax Payable	39	41
Payroll Taxes Payable	3,627	2,640
Due to Other Governments	1,408	4,198
Accrued Interest Payable	2,805	1,506
Current RUS Bond Payable	47,089	44,007
Total Current Liabilities (Payable From Current Assets)	<u>89,803</u>	<u>65,505</u>
Current Liabilities (Payable From Restricted Assets):		
Liability for Connection Fees for Pine Addition	11,196	0
Customer Deposits Payable	20,661	18,586
Total Current Liabilities (Payable From Restricted Assets)	<u>31,857</u>	<u>18,586</u>
Long-Term Liabilities:		
1977 Water Revenue Bonds	44,123	68,046
1988 Water Revenue Bonds	674,232	698,525
Total Long-Term Liabilities	<u>718,355</u>	<u>766,571</u>
Total Liabilities	<u>840,015</u>	<u>850,662</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	703,551	745,007
Restricted for Capital Activity and Debt Service	270,823	261,389
Unrestricted	1,324,201	1,219,705
Total Net Assets	<u>2,298,575</u>	<u>2,226,101</u>
Total Liabilities and Net Assets	<u>\$ 3,138,590</u>	<u>\$ 3,076,763</u>

The accompanying notes are an integral part of these statements.

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

Statement B

**Statement of Revenues, Expenses, and Changes in Net Assets
Years Ended December 31, 2004 and 2003**

Operating Revenues	<u>2004</u>	<u>2003</u>
Water Sales	\$ 383,503	\$ 383,095
Installations	8,400	8,800
Penalties	9,013	9,157
Billing Fees	99,310	92,815
Reconnect Fees	3,025	2,815
Other	495	39
Total Operating Revenues	<u>503,746</u>	<u>496,721</u>
 Operating Expenses		
Accounting Fees	10,965	10,560
Audit Fees	3,400	3,400
Advertising	1,011	1,151
Bank Charges	7	-14
Conventions	1,825	808
Depreciation Expense	127,453	117,747
Director Fees	4,020	3,840
Insurance	51,910	63,588
Legal Fees	280	1,069
Maintenance Supplies	22,533	21,682
Membership Dues	345	664
Mowing	1,715	1,485
NSF Checks	0	-113
Office Expense	8,860	10,975
Operation & Maintenance - Contract	13,325	3,291
Payroll Taxes	9,883	8,908
Permits	0	4,173
Plant Maintenance	1,290	3,146
Repairs and Installations	7,961	7,571
Rent Expense	100	294
Salaries	117,605	124,920
Telephone	3,880	3,312
Travel	1,195	2,120
Truck Expense	1,257	1,001
Uniforms	1,117	0
Utilities	45,442	46,065
Total Operating Expenses	<u>437,379</u>	<u>441,643</u>
 Operating Income (Loss)	 <u>66,367</u>	 <u>55,078</u>

(Continued)

The notes are an internal part of these statements.

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

Statement B

**Statement of Revenues, Expenses, and Changes in Net Assets
Years Ended December 31, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
Nonoperating Revenues (Expenses)		
Interest Income	14,242	9,778
Investment Interest	37,086	38,993
Bad Debt Recovery	130	50
Other Revenues	320	361
Net Increase (Decrease) in Fair Market Value of Investments	1,608	-21,445
Bad Debt Expense	-1,363	0
Bond Interest Expense	-45,916	-49,285
Total Nonoperating Revenues (Expenses)	<u>6,107</u>	<u>-21,548</u>
Income (Loss) Before Contributions	72,474	33,530
Contributions	<u>0</u>	<u>0</u>
Change in Net Assets	72,474	33,530
Net Assets, Beginning of Year	2,226,101	2,192,571
Net Assets, End of Year	<u>\$ 2,298,575</u>	<u>\$ 2,226,101</u>

(Concluded)

The notes are an integral part of these statements.

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

Statement C

**Statement of Cash Flows
Years Ended December 31, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
Cash Flows From Operating Activities		
Received From Customers	\$ 402,728	\$ 400,672
Received (Paid) for Meter Deposit Fees	13,271	-331
Received for Billing Fees	93,879	91,221
Paid for Operations	-181,003	-187,554
Paid to Employees	-126,598	-133,443
Net Cash Flows From Operating Activities	<u>202,277</u>	<u>170,565</u>
Cash Flows From Noncapital Financing Activities		
Recovery of Bad Debts	130	50
Miscellaneous Income	320	359
Net Cash Flows From Noncapital Financing Activities	<u>450</u>	<u>409</u>
Cash Flows From Capital and Related Financing Activities		
Paid for Capital Acquisitions	-33,577	-109,243
Paid for Construction Projects	-7,286	-2,620
Principal Payments - Long-Term Debt	-45,134	-39,063
Interest Payments - Long-Term Debt	-44,616	-50,687
Net Cash Flows From Capital and Related Financing Activities	<u>-130,613</u>	<u>-201,613</u>
Cash Flows From Investing Activities		
Purchase (Sale) of Investments	-32,882	-32,829
Receipt of Interest and Dividends	48,275	48,771
Net Cash Flows From Investment Activities	<u>15,393</u>	<u>15,942</u>
Net Change in Cash and Cash Equivalents	87,507	-14,697
Cash and Cash Equivalents - Beginning of Year	867,434	882,131
Cash and Cash Equivalents - End of Year	<u>\$ 954,941</u>	<u>\$ 867,434</u>

(Continued)

See accompanying notes and accountant's report

Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana

Statement C

Statement of Cash Flows
Years Ended December 31, 2004 and 2003

	<u>2,004</u>	<u>2003</u>
Reconciliation of Operating Income to Net Cash Flows From Operating Activities		
Operating Income (Loss)	\$ 66,367	\$ 55,078
Adjustments to Reconcile Operating Income to Net Cash		
Flows From Operating Activities:		
Depreciation Expense	127,453	117,747
Changes in Assets and Liabilities:		
Decrease (Increase) in Customer Receivables	-1,662	-3,234
Decrease (Increase) in Due From Other Governments	-2,639	
Decrease (Increase) in Prepaid Insurance	4,691	
Decrease (Increase) in Accrued Interest Receivable	-1,445	
Increase (Decrease) in Accounts Payable	-3,254	7,866
Increase (Decrease) in Sales Tax Payable	-2	
Increase (Decrease) in Payroll Taxes Payable	987	
Increase (Decrease) in Due to Other Governments	-2,790	
Increase (Decrease) in Accrued Interest Payable	1,300	
Increase (Decrease) in Customer Deposit Payable	13,271	
Increase (Decrease) in Other Operating Net Assets	0	-6,892
Net Cash Flows From Operating Activities	\$ <u>202,277</u>	\$ <u>170,565</u>

See accompanying notes and accountant's report

NOTES TO FINANCIAL STATEMENTS

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

**Notes to the Financial Statements
As of and for the Year Ended December 31, 2004 and 2003**

Introduction

Varnado Waterworks District was established in 1975, by an ordinance of the Washington Parish Council. The ordinance, enacted pursuant to Louisiana Revised Statutes 33:3813, describes and defines the boundaries of the water district, and provides for a 8-member governing board of commissioners appointed by the Washington Parish Council. The District currently serves 1,396 customers as of December 31, 2004. The District's water wells are located approximately five miles north of the Bogalusa, Louisiana city limits. The system lines run north to the Mississippi state line, south to the Bogalusa city limits, east to the Pearl River, and approximately five miles west of Military Road.

The District was thus created and constitutes a public corporation and political subdivision of the State of Louisiana, and has all the power and privileges granted by the Constitution and statutes of this state to such subdivision, including the authority to incur debt, to issue bonds, and to levy taxes and assessments.

GASB Statement No. 14, *The Reporting Entity*, established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, the Varnado Waterworks District is considered a component unit of the Washington Parish Council.

1. Summary of Significant Accounting Policies

A. Measurement Focus and Basis of Accounting and Financial Statement Presentation

The District's financial statements are prepared on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principle Board (APB) of the Committee on Accounting Procedure, issued on or before November 30, 1989, unless those pronouncements conflict or contradict with GASB pronouncements.

These financial statements are presented in conformance with GASB Statement No. 34, *Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments*. Statement No. 34 established standards for financial reporting, with presentation requirements including a Statement of Net Assets (or Balance Sheet), a Statement of Activities and Changes in Net Assets, and a Statement of Cash Flows. The District has also adopted the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, that require capital contributions to the District be presented as a change in net assets.

All activities of the District are accounted for in a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprise, where the intent of the governing authority is that the cost (expenses, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges.

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

**Notes to the Financial Statements
December 31, 2004 and 2003**

Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

The term measurement focus denotes what is being measured and reported in the District's operating statement. Financial operations of the District are accounted for on the flow of economic resources measurement focus. With this measurement focus, all of the assets and liabilities, available to the District for the purpose of providing goods and services to the public, are included on the Balance Sheet. The activity statement includes all costs of providing goods and services during the period.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations, primarily the provision of water to rural areas of Washington Parish. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the entity's policy to use restricted resources first, then unrestricted resources as they are needed.

B. Cash and Cash Equivalents and Investments

Cash includes amounts in demand deposits, interest-bearing demand deposits, and money market accounts. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, the District may deposit funds in demand deposits, interest-bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States.

C. Investments

Investments are limited by Louisiana Revised Statute (R.S.) 33:2955 and the District's investment policy. If the original maturities of investments exceed 90 days, they are classified as investments; however, if the original maturities are 90 days or less, they are classified as cash equivalents.

The following disclosures are required by GASB Statement No. 31:

- The District uses the quoted market prices to estimate the fair value of the investments.
- None of the investments are reported at amortized cost.
- The District has investments in one investment pool. The investment pool is LAMP, and the fair value of the position in the pool is the same as the value of the pool shares.
- There is no involuntary participation in an external investment pool.

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

**Notes to the Financial Statements
December 31, 2004 and 2003**

D. Inventories

Purchases of various operating supplies are regarded as expenditures at the time purchased, and inventories of such supplies (if any) are not recorded as assets at the close of the fiscal year.

E. Prepaid Items

Payments made to vendors that will benefit periods beyond the end of the current calendar year are recorded as prepaid items. Prepaid items consist of prepaid insurance premiums.

F. Restricted Assets

Certain proceeds of the Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

G. Capital Assets

Capital assets of the District are defined by the Management, as assets with an initial, individual cost of more than \$500, and an estimated useful life in excess of one year. Capital assets are recorded at either historical cost or estimated historical cost. Donated assets, including water systems donated for continued maintenance by the District, are valued at their estimated fair market value on the date donated. Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows:

Buildings	15 - 30 years
Equipment & Furniture	5 - 7 years
Water System	20 - 30 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

H. Compensated Absences

The District has the following policy relating to vacation and sick leave:

Employees receive 2 weeks of paid vacation after being employed for 1 to 5 years, and 3 weeks of paid vacation for 6 years and over. Employees are not allowed to carry over vacation from one year to the next.

Employees accrue ½ day per month of employment for sick leave up to a maximum of 45 days.

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

**Notes to the Financial Statements
December 31, 2004 and 2003**

I. Long-term Liabilities

Long-term liabilities are recognized within the Enterprise Fund. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

J. Net Assets

GASB Statement No. 34, *Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments*, requires classification of net assets, the difference between the District's assets and liabilities, into three components, as described below:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, or indebtedness attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net asset calculation as unspent proceeds.
- Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

K. Use of Estimates

The preparation of financial statements in conformance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

**Notes to the Financial Statements
December 31, 2004 and 2003**

2. Cash and Cash Equivalents

At December 31, 2004, and 2003, the District had cash and cash equivalents (book balances) totaling as follows:

	December 31, 2004	December 31, 2003
Demand Deposit Accounts	\$ 220,181	\$ 146,615
Time Deposits	390,880	381,143
Louisiana Asset Management Pool	343,880	339,676
Total Cash and Cash Equivalents	<u>\$ 954,941</u>	<u>\$ 867,434</u>

These deposits are stated at cost, which approximates market value. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

At December 31, 2004, the District had \$614,376 in deposits (collected bank balances). These deposits are secured from risk by \$300,000 of federal deposit insurance. The remaining balance of \$314,376 is partly secured by the pledge of securities for \$288,861, while the remainder of \$25,515 is unsecured.

At December 31, 2003, the District had \$521,913 in deposits (collected bank balances). These deposits are secured from risk by \$358,828 of federal deposit insurance. The remaining balances of \$163,085 are secured by the pledge of securities for \$158,680, while the remainder of \$4,405 is unsecured.

Even though the pledged securities are considered uncollateralized (Category 3) under the provisions of GASB Statement 3, Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the District that the fiscal agent has failed to pay deposited funds upon demand.

3. Investments

Investments are categorized into these three categories of credit risk:

- Insured or registered, or securities held by the District or its agent in the District's name
- Uninsured and unregistered, with securities held by the counter party's trust department or agent in the District's name
- Uninsured and unregistered, with securities held by the counter party, or by its trust department or agent but not in the District's name.

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

**Notes to the Financial Statements
December 31, 2004 and 2003**

All investments held by the District fall into category I credit risk, defined as "insured or registered, or securities held by the District or its agent in the District's name." In accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, all investments are carried at fair market value, with the estimated fair market value based on quoted market prices.

At December 31, 2004, the District's investment balances were as follows:

Type of Investment	Carrying Amount	Market Value
Government Money Market	\$ 22,037	\$ 22,037
Certificates of Deposit	20,983	20,983
Federal Home Loan Mortgage	481,726	481,726
Federal National Mortgage	98,375	98,375
Totals	<u>\$ 623,121</u>	<u>\$ 623,121</u>

In accordance with GASB Codification Section 150.165, the investment in LAMP at December 31, 2004 and 2003 is not categorized in the three risk categories provided by GASB Codification Section 150.164 because the investment is in the pool of funds and therefore not evidenced by securities that exist in physical or book entry form. LAMP is administered by LAMP, Inc., a nonprofit corporation organized under the laws of the State of Louisiana, which was formed by an initiative of the State Treasurer in 1993. The corporation is governed by a board of directors comprising the State Treasurer, representatives from various organizations of local government, the Government Finance Office Association of Louisiana, and the Society of Louisiana CPAs. Only local governments having contracted to participate in LAMP have an investment interest in its pool of assets. The primary objective of LAMP is to provide a safe environment for the placement of public funds in short-term, high-quality investments. The LAMP portfolio includes only securities and other obligations in which local governments in Louisiana are authorized to invest. Accordingly, LAMP investments are restricted to securities issued, guaranteed, or backed by the U. S. Treasury, the U. S. Government, or one of its agencies, enterprises, or instrumentalities, as well as repurchase agreements collateralized by those securities. The dollar weighted average portfolio maturity of LAMP assets is restricted to not more than 90 days, and consists of no securities with a maturity in excess of 397 days. LAMP is designed to be highly liquid to give its participants immediate access to their account balances. Therefore, LAMP is considered a cash equivalent.

4. Receivables

The following is a summary of receivables at December 31, 2004, and 2003:

	2004	2003
Current	\$ 30,134	\$ 32,105
31-60 Days Past Due	5,514	5,355
61-90 Days Past Due	1,396	1,361
Over 90 Days Past Due	794	544
Total	<u>37,838</u>	<u>39,365</u>
Less Allowance for Uncollectible Accounts	<u>(1,968)</u>	<u>(1,968)</u>
Net Accounts Receivable	<u>\$ 35,870</u>	<u>\$ 37,397</u>

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

**Notes to the Financial Statements
December 31, 2004 and 2003**

Receivables (continued)

All customer receivables are reported at gross value and reduced by the portion that is expected to be uncollectible. Periodically, the board reviews the aging of receivables and determines the actual amount uncollectible. Per board approval, uncollectible amounts are written off against accounts receivable, and the allowance for doubtful accounts is adjusted to a reasonable estimate of uncollectible accounts.

Estimated unbilled revenues (accrued billings) are recognized at the end of each fiscal year on a pro-rata basis. The estimated amount is based on billing during the month following the close of the fiscal year. At December 31, 2004, accrued billings amounts were \$13,028, and \$11,155 at December 31, 2003.

5. Restricted Assets

Restricted assets were applicable to the following at December 31, 2004, and 2003:

	December 31, 2004	December 31, 2003
Cash-Customer Meter Deposits	\$ 2,059	\$ 2,036
Cash-Connection Fees Pine Addition	11,196	-
Cash-Bond Reserve Account	26,329	26,007
Investments-Bond Reserve Account	73,504	69,017
Cash-Depreciation & Contingency Account	99,158	98,005
Investments-Depreciation & Contingency Account	90,434	84,911
Total Restricted Assets	<u>\$ 302,680</u>	<u>\$ 279,976</u>

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

**Notes to the Financial Statements
December 31, 2004 and 2003**

6. Capital Assets

A summary of changes in capital assets during the fiscal year ending December 31, 2004 is as follows:

	Balance December 31, 2003	Additions and Reclassifications	Deletions and Reclassifications	Balance December 31, 2004
Land	\$ 35,512	\$ -	\$ -	\$ 35,512
Buildings	123,178	24,976	-	148,154
Office Equipment	10,727	-	-	10,727
Machinery & Equipment	21,300	32,591	-	53,891
Vehicles	58,384	-	-	58,384
Water Distribution System	3,244,374	986	-	3,245,360
Capital Assets in Service	3,493,475	58,553	-	3,552,028
Construction in Progress	68,800	7,286	-	76,086
Total Capital Assets	3,562,275	65,839	-	3,628,114
Less accumulated depreciation	(2,006,690)	(127,453)	-	(2,134,143)
Net Capital Assets	<u>\$ 1,555,585</u>	<u>\$ (61,614)</u>	<u>\$ -</u>	<u>\$ 1,493,971</u>

During the fiscal year ending December 31, 2004, construction expenditures totaling \$7,286 were incurred by the District for the LCDBG well site # 4 project, \$32,591 for an excavator and trailer, and \$986 for miscellaneous water system improvements. Construction of a 36' x 80' metal building for equipment storage was also substantially complete at fiscal year end at a total cost of \$24,976. No construction period interest costs were incurred. .

Equipment, furniture, and fixtures are depreciated using the useful lives of 5 to 10 years, and the water distribution system uses a useful life of 20 to 30 years. All assets are depreciated under the straight-line method. Depreciation expense for the fiscal year ending December 31, 2004, totaled \$127,453.

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

**Notes to the Financial Statements
As of and for the Year Ended December 31, 2004 and 2003**

7. Long-term Debt

The following is a summary of the long-term liability transactions during the fiscal year ending December 31, 2004:

Description	Long-Term Liabilities Beginning of Year	Additions	Deletions	Long-Term Liabilities End of Year	Due Within One Year
1977 Water Revenue Bonds	\$ 91,202	\$ -	\$ (22,717)	\$ 68,485	\$ 24,162
1988 Water Revenue Bonds	719,576	-	(22,417)	697,159	22,927
Total	<u>\$ 810,578</u>	<u>\$ -</u>	<u>\$ (45,134)</u>	<u>\$ 765,444</u>	<u>\$ 47,089</u>

Bonds Payable at December 31, 2004 and 2003 comprise the following issues:

	December 31, 2004	December 31, 2003
Water System Revenue Bonds - RUS Bonds 91-01: \$395,000 revenue bonds sold to Rural Utility Service, dated 11/16/77, due in monthly installments of \$2,248.81 through 11/16/16; interest at 5.0%	\$ 68,285	\$ 91,002
Water System Revenue Bonds - RUS Bonds 91-04: \$925,000 revenue bonds sold to Rural Utility Service, dated 03/29/88, due in monthly installments of \$5,230.40 through 3/29/28; interest at 5.875%	697,159	719,576
Total Bonds Payable	<u>\$ 765,444</u>	<u>\$ 810,578</u>

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

**Notes to the Financial Statements
December 31, 2004 and 2003**

The annual requirements to amortize all debt outstanding as of December 31, 2004, including interest payments of \$1,087,019 are as follows

Year Ending December 31,	1977 Water Revenue Bonds \$395,000	1988 Water Revenue Bonds \$925,000	Total
2005	\$ 26,986	\$ 62,765	\$ 89,751
2006	26,986	62,765	89,751
2007	26,986	62,765	89,751
2008	26,986	62,765	89,751
2009	26,986	62,765	89,751
2010-2014	134,929	313,824	448,753
2015-2019	78,707	313,824	392,531
2020-2024	-	313,824	313,824
2025-2028	-	203,984	203,984
Totals	\$ 348,566	\$ 1,459,281	\$ 1,807,847

8. Flow of Funds, Restrictions on Use

The voters of the District approved the issuance of \$395,000, \$76,000, and \$925,000 of the utility revenue bonds in elections held January, 1977, November 13, 1978, and April 13, 1988. Permanent financing for the \$395,000 issue, used to finance Phase I of the District's waterworks system, was obtained on November 16, 1977 from the United States Department of Agriculture, Rural Utilities Service (RUS). The \$76,000 issue, used to construct Phase II, was also sold to RUS, but has been fully refunded. The final issue of \$925,000, used to construct Phase III of the water system, was also sold to RUS on March 29, 1988.

Under the terms of the bond issue, the bonds are payable as to principal and interest solely from the income and revenues derived from the operations of the combined water system of the District after provisions have been made for the payment of the reasonable and necessary expenses of administering, operating, and maintaining of the system.

The District is to maintain its water rates at minimum amounts and increase these rates as necessary in accordance with its loan agreements with RUS.

Each month there will be set aside into a fund called "Bond and Interest Sinking (Redemption) Fund" a sum equal to one-twelfth (1/12) of the next principal payment due, together with such proportionate sum as may be required as the same respectfully become due on such date. Money in the Sinking Fund shall be deposited as trust funds and shall be fully sufficient to assure the prompt payment of principal and interest installments as they become due, and may be used only for such payments. Alternately, RUS has set up a payment schedule whereby the District can make payments directly to its office. This eliminates the need of the "Bond and Interest Sinking Fund".

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

**Notes to the Financial Statements
As of and for the Year Ended December 31, 2004 and 2003**

There shall also be set aside into a "Utility System Revenue Bond Reserve Fund" an amount equal to 5% of the monthly debt installment, after the construction becomes revenue producing, until there is accumulated therein an amount equal to the highest annual debt service payment in any future year. The monthly reserve deposit requirement totals \$374 per month, but is no longer required since the accumulated balance of \$99,833 at December 31, 2004 exceeds the highest succeeding annual installment.

Such amounts may be used only for the payment of maturing bonds and interest coupons for which sufficient funds are not on deposit in the Bond and Interest Sinking Fund, as to which there would otherwise be default. The District fully funded the Reserve Fund for the year ended December 31, 2004.

Funds will also be set aside into a "Depreciation and Contingency Fund", after completion of the project, at the rate of \$398 per month for the term of the bonds. Money in this fund will be used for the making of repairs or replacements to the system, for depreciable capital items, which are necessary to keep the system in operating condition, enhance its revenue producing capacity or provide for a higher degree of service for which money is not available as a maintenance and operation expense. Money in this fund may also be used to pay principal and interest on the bonds falling due at any time there is not sufficient money for payments in other bond funds. The District fully funded the Depreciation and Contingency Fund for the year ended December 31, 2004, with a balance maintained of \$189,582, as compared to \$182,916 as of December 31, 2003. However, under the terms of the bond agreement, the District is required to continue funding of the "Depreciation and Contingency Fund" at a rate of \$398 per month during the term of the bonds, or until the funding level is changed per requirements of subsequently funded water revenue bonds.

All the revenues, received in any year and not required to be paid in such year into any of the noted funds, shall be regarded as surplus and may be used for any lawful corporate purpose.

9. Restricted and Designated Net Assets

At December 31, 2004, Varnado Waterworks District recorded \$261,389 in Restricted Net Assets (Restricted for Capital Activity and Debt Service), representing the District's funds restricted by revenue bond debt covenants, contracts with customers for meter deposits, and the unspent portion of capital debt related to amounts restricted for capital projects less liabilities related to these restricted funds. A liability relates to restricted assets if the asset results from incurring the liability or if the liability will be liquidated with the restricted assets.

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

**Notes to the Financial Statements
As of and for the Year Ended December 31, 2004 and 2003**

10. Intergovernmental Agreement

The Varnado Waterworks District entered into a service agreement with the Bogue Lusa Water Works District and the Washington Parish Gas District. The Varnado Waterworks District will perform all necessary functions involving billing of customers, collection of customer's accounts, keeping and furnishing necessary financial information and records on a monthly basis to Bogue Lusa Water Works District and Washington Parish Gas District. The Varnado Waterworks District also performs meter reading for Varnado Gas District. The fee for this service is \$1.75 per customer per month for Bogue Lusa Water Works and \$2.35 per customer per month for Washington Parish Gas District, payable monthly. Varnado Waterworks District will provide all system repair and maintenance customarily done by its own personnel. Accurate hourly records of personnel records involved in repairs shall be kept and Bogue Lusa Water Works District and Washington Parish Gas District will be billed monthly at two times the employees hourly rate. All materials, parts and supplies will be paid directly by the District which incurred the cost. Varnado Waterworks District employees will keep accurate mileage records for the service truck used for maintenance and repairs and will bill the other Districts 35 cents per mile for work done on their respective systems. Periodically, an accounting will be made of the costs of the services provided under the agreement. Cash settlements will be made between the Districts, so each District pays its portion of the actual costs.

11. Subsequent Events

During the fiscal year ending December 31, 2004, Varnado Waterworks District received a "Letter of Conditions" from the USDA, Rural Development Office, awarding funding for water system improvements bonds totaling \$3,918,000. Total funding of \$3,918,000 is to consist of a Rural Development grant of \$1,156,000, and a Rural Development Loan of \$2,744,000, with a total of \$18,000 to be provided by Varnado Waterworks District. Funding is construction of a water distribution system for the "Pine Area" for approximately 360 new customers. As of the date of this report, May 31, 2005, this project is being finalized for formal bid advertisement.

Also, as of the date of this report construction was substantially complete under the LCDBG program for the William Lewis Road project. Funding was through the Washington Parish Council and on final LCDBG close-out, this project will be formally donated by the Washington Parish Government to the Varnado Waterworks District for continued maintenance.

Supplementary Information

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

Schedule 1

**Budgetary Comparison Schedule
Year Ended December 31, 2004**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Operating Revenues				
Water Sales	\$ 385,000	\$ 382,000	\$ 383,503	\$ 1,503
Installations	8,000	9,200	8,400	-800
Penalties	9,000	9,200	9,013	-187
Billing Fees	80,000	93,000	99,310	6,310
Reconnect Fees	3,500	3,200	3,025	-175
Other	200	210	495	285
Total Operating Revenue	<u>485,700</u>	<u>496,810</u>	<u>503,746</u>	<u>6,936</u>
Operating Expenses				
Accounting Fees	14,000	13,100	10,965	2,135
Advertising	500	1,200	1,011	189
Audit Fees	0	3,400	3,400	0
Bank Charges & NSF Checks	600	-300	7	-307
Conventions	700	1,800	1,825	-25
Depreciation Expense	122,000	120,000	127,453	-7,453
Director Fees	5,000	3,600	4,020	-420
Insurance	56,000	53,000	51,910	1,090
Legal Fees	500	300	280	20
Maintenance Supplies	26,000	25,000	22,533	2,467
Membership Dues	300	400	345	55
Mowing	2,500	1,500	1,715	-215
Office Expense	11,000	9,600	8,860	740
Operation & Maintenance - Contract	13,000	13,200	13,325	-125
Payroll Taxes	9,000	10,500	9,883	617
Plant Maintenance	7,000	1,500	1,290	210
Permits	4,600	4,800	0	4,800
Repairs and Maintenance	10,000	12,000	7,961	4,039
Rent Expense	300	100	100	0
Salaries	129,000	117,000	117,605	-605
Telephone	3,800	3,800	3,880	-80

(Continued)

**Washington Parish Council
Varnado, Louisiana**

Schedule 1

**Budgetary Comparison Schedule
Year Ended December 31, 2004**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Travel	\$ 3,600	\$ 1,200	\$ 1,195	\$ 5
Truck Expense	1,300	600	1,257	-657
Uniforms	0	1,100	1,117	-17
Utilities	47,500	46,000	45,442	558
Total Operating Expenses	<u>468,200</u>	<u>444,400</u>	<u>437,379</u>	<u>7,021</u>
Operating Income	<u>17,500</u>	<u>52,410</u>	<u>66,367</u>	<u>13,957</u>
Nonoperating Revenues (Expenses)				
Interest Income	40,900	34,000	14,242	-19,758
Investment Interest	0	13,300	37,086	23,786
Interest Expense	-59,500	-49,000	-45,916	3,084
Bad Debt Expense	-3,000	0	-1,363	-1,363
Reimbursed Billing Cost	-3,000	0	0	0
Other Non-Operating Revenue	<u>1,000</u>	<u>5,700</u>	<u>2,058</u>	<u>-3,642</u>
Total Nonoperating	<u>-23,600</u>	<u>4,000</u>	<u>6,107</u>	<u>2,107</u>
Income (Loss) Before Contributions and Prior Period Adjustments	-6,100	56,410	72,474	16,064
Capital Contributions	<u>0</u>	<u>0</u>	<u>0</u>	<u>-</u>
Change in Net Assets	-6,100	56,410	72,474	16,064
Net Assets, Beginning of Year	<u>2,226,101</u>	<u>2,226,101</u>	<u>2,226,101</u>	<u>2,059,535</u>
Net Assets, End of Year	<u>\$ 2,220,001</u>	<u>\$ 2,282,511</u>	<u>\$ 2,298,575</u>	<u>\$ 2,075,599</u>

(Concluded)

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

Schedule 2

**Schedule of Insurance Coverage
December 31, 2004**

	Vice-President	100,000	11/16/2005
	Board Member	100,000	
	General Manager	25,000	
	Clerk	25,000	
American Alternative Insurance Co. Policy # SDISSK 9102282-0	Commercial General Liability:		
	General Aggregate	\$ 3,000,000	2/28/2004
	Per Occurrence Limits	1,000,000	2/28/2005
	Bodily Injury & Prop. Damage	1,000,000	
	Personal & Advertising Injury	1,000,000	
	Employment-Related Practices	1,000,000	
	Professional Liability	1,000,000	
	Wrongful Acts	1,000,000	
	Employee Benefits Liability	1,000,000	
	Damage to Premises Rented	1,000,000	
	Medical Expense Per Accident	10,000	
American Alternative Insurance Co. Policy # SDISSK 9102282-0	Commercial Property:		
	Office Building	\$ 85,000	2/28/2004
	Contents	20,000	2/28/2005
	Metal Building	8,000	
	Scheduled Tanks, Pumps, Ect	299,999	
American Alternative Insurance Co. Policy # SDISSK 9102282-0	Inland Marine Coverage	\$ 250,000	2/28/2004
	Crime Coverage Part (\$500	100,000	2/28/2005
	Deductible Applies per Type of Coverage Listed)		
American Alternative Insurance Co. Policy # SDISSK 9102282-0	Business Auto:		
	Liability	\$ 1,000,000	2/28/2004
	Uninsured Motorist	1,000,000	2/28/2005
	Comprehensive	As Scheduled	
	Collision	As Scheduled	
	Medical Payments	\$5000./pers.	
Louisiana Workers Comp. Corp. Policy #105384-A	Worker's Compensation:		
	Accident	\$ 100,000	4/8/2004
	Policy Limit	500,000	4/8/2005
	Each Employee	100,000	

See accountant's review report

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

Schedule 3

**Schedule of Compensation Paid Board of Commissioners
December 31, 2004**

<u>Board of Commissioners</u>	Per Diem Payments	<u>Term of Office</u>
Randy Thomas, Commissioner 28118 Luke Pace Road Angie, LA 70426 (985) 848-2911	\$ 660	Expires 12/31/09
Freddie Jefferson, Vice-President 31110 School Rd. Angie, LA 70426 (985) 986-2460	720	Expires 12/31/06
Melodysee Peters, Commissioner 24279 Old Columbia Road Angie, LA 70426 (985) 732-4091	360	No Longer on Board
Berkley Thomas, President 20078 Edwards Drive Bogalusa, LA 70427 (985) 732-3833	780	Expires 12/31/04
Levi Lewis, Sr., Commissioner 63389 Foster Town Road Angie, LA 70426 (985) 735-5890	120	Expires 12/31/08
Argil Boone, Commissioner 61768 Seal Road Angie, LA 70426 (985) 732-2962	780	Expires 12/31/05
Ronald Owens, Commissioner 26183 Hwy 21 Angie, LA 7042 (985) 735-6111	600	Expires 12/31/09
	<u>\$ 4,020</u>	

See accountant's review report

**Varnado Waterworks District
Washington Parish Council
Varnado, Louisiana**

Schedule 4

**Schedule of Water Customers
December 31, 2004**

As of December 31, 2004, the water district had the following number of customers.

Residential	1,372
Commercial	18
School	5
Prison	1
Total Customers	<u>1,396</u>

**Schedule of Water Rates
December 31, 2004**

<u>Usage</u>	<u>Monthly Charge</u>
Residential:	
First 2,000 gallons	\$9.50
Next 3,000 gallons	1.85 per thousand gallons
Over 5,000 gallons	1.00 per thousand gallons
Commercial:	
First 15,000 gallons	\$35.00
All over 15,000 gallons	1.00 per thousand gallons

See accountant's review report

WILLIAM R. DURDEN

Certified Public Accountant

820 11TH AVENUE
FRANKLINTON, LOUISIANA 70438
(985)839-4413
FAX (985)839-4402

MEMBER
A.I.C.P.A.

MEMBER
L.C.P.A.

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Board of Commissioners
Washington Parish Reservoir Commission
Franklinton, LA

Gentlemen:

I have performed the procedures included in the Louisiana Government Audit Guide and enumerated below, which were agreed to by the management of the Varnado Waterworks District, and the Legislative Auditor, State of Louisiana, solely to assist the users in evaluating management's assertions about the District's compliance with certain laws and regulations during the period ended December 31, 2004, included in the accompanying Louisiana Attestation Questionnaire. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, I make no representations regarding the sufficiency of the procedures described below neither for the purpose for which this report has been requested nor for any other purpose.

Public Bid Law

1. Select all expenditures made during the year for material and supplies exceeding \$15,000, or public works exceeding \$100,000, and determine whether such purchases were made in accordance with LAS-RS 38:2211-2251 (the public bid law).

The District did not have any purchases that exceed \$15,000 or public works exceeding \$100,000. The Commission complied with public bid law.

Code of Ethics for Public Officials and Public Employees

2. Obtain from management a list of the immediate family members of each board member as defined by LSA-RS 42:1101-1124 (the code of ethics), and a list of outside business interests of all board members and employees, as well as their immediate families.

Management provided me with the required list of board members, their immediate family members, and their outside business interests. I scanned cash disbursements journals for any related party transactions, there were none that came to my attention.

3. Obtain from management a listing of all employees paid during the period under examination.

The District provided me with a list of all employees paid during the fiscal year ended December 31, 2004, along with a copy of their W-2's.

4. Determine whether any of those employees included in the listing obtained from management in agreed-upon procedure (3) were also included on the listing obtained from management in procedure (2) as immediate family members.

There were no employee names included on the list of immediate family members provided by the board members.

Budgeting

5. Obtain a copy of the legally adopted original budget and all amendments.

Management provided me with copies of the original and amended budgets.

6. Trace the budget adoption and amendments to the minute book.

I traced the adoption of the 2004 original and amended budgets to the District's minutes. The original budget was approved at the meeting of December 16, 2003, and the amended budget was adopted at the December 2, 2004 meeting.

7. Compare the revenues and expenditures of the final budget to actual revenues and expenditures to determine if actual revenues or expenditures exceed budgeted amounts by more than 5%.

The actual revenues and expenditures did not exceed budgeted amounts by more than 5%.

Accounting and Reporting

8. Randomly select six disbursements made during the period under examination and:

(a) trace payments to supporting documentation as to proper amount and payee:

I examined supporting documentation for each of the six selected disbursements and found that payment was for the proper amount and made to the correct payee.

(b) determine if payments were properly coded to the correct fund and general ledger account;

The six payments I examined were coded to the correct general ledger accounts and proper fund.

(c) determine whether payments received approval from proper authorities.

Inspection of documentation supporting the six selected disbursements indicates approval to purchase from the Board of Commissioners.

Meetings

9. Examine evidence indicating that agendas for meetings recorded in the minute book were posted or advertised as required by LSA-RS 42:1-12 (the open meetings law).

Varnado Waterworks District meets the same day each month (2nd Tuesday), and therefore, places the notice of meeting in the local newspaper once each year. The agenda for each meeting is placed on the door of the District's office two days prior to each meeting. Management has asserted that the agenda was properly posted. I examined copies of meeting notices containing date, time, place and business to be conducted, which are filed with the minutes of each meeting.

Debt

10. Examine bank deposits for the period under examination and determine whether any such deposits appear to be proceeds of bank loans, bonds or like indebtedness.

I inspected copies of all bank deposits for the period under examination and did not detect any deposits which appeared to be proceeds of bank loans, bonds or like indebtedness.

Advances and Bonuses

11. Examine payroll records and minutes for the year to determine whether any payments have been made to employees, which may constitute bonuses, advances, or gifts.

I scanned cash disbursement records and minutes for evidence of any payments which may constitute employee bonuses, employee advances, or gifts to Board members, none were noted. I calculated total compensation for each employee using hourly rate of pay times 2080 hours and compared the calculated totals to the employee W-2's. Differences were immaterial indicating no additional compensation other than regular pay.

I was not engaged to, and did not perform an examination, the objective of which would be the expression of an opinion on management's assertions. Accordingly, I do not express such an opinion. Had I performed additional procedures, other matters might have come to my attention that would have been reported to you.

This report is intended solely for the use of management of the Varnado Waterworks District, the Legislative Auditor, State of Louisiana and the Washington Parish Government and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.



William R. Durden
Certified Public Accountant

May 31, 2004

LOUISIANA ATTESTATION QUESTIONNAIRE
(For Attestation Engagements of Government)

6-01-05 (Date Transmitted)

Vaarnado Waterworks District

William R DurDen CPA (Auditors)

In connection with your review of our financial statements as of [date] and for the year then ended, and as required by Louisiana Revised Statute 24:513 and the *Louisiana Governmental Audit Guide*, we make the following representations to you. We accept full responsibility for our compliance with the following laws and regulations and the internal controls over compliance with such laws and regulations. We have evaluated our compliance with the following laws and regulations prior to making these representations.

These representations are based on the information available to us as of (date of completion/representations).

Public Bid Law

It is true that we have complied with the public bid law, LSA-RS Title 38:2212, and, where applicable, the regulations of the Division of Administration, State Purchasing Office..

Yes [☒] No []

Code of Ethics for Public Officials and Public Employees

It is true that no employees or officials have accepted anything of value, whether in the form of a service, loan, or promise, from anyone that would constitute a violation of LSA-RS 42:1101-1124.

Yes [☒] No []

It is true that no member of the immediate family of any member of the governing authority, or the chief executive of the governmental entity, has been employed by the governmental entity after April 1, 1980, under circumstances that would constitute a violation of LSA-RS 42:1119.

Yes [☒] No []

Budgeting

We have complied with the state budgeting requirements of the Local Government Budget Act (LSA-RS 39:1301-14) or the budget requirements of LSA-RS 39:34.

Yes [☒] No []

Accounting and Reporting

All non-exempt governmental records are available as a public record and have been retained for at least three years, as required by LSA-RS 44:1, 44:7, 44:31, and 44:36.

Yes [☒] No []

We have filed our annual financial statements in accordance with LSA-RS 24:514, 33:463, and/or 39:92, as applicable.

Yes [☒] No [☐]

We have had our financial statements audited or compiled in accordance with LSA-RS 24:513.

Yes [☒] No [☐]

Meetings

We have complied with the provisions of the Open Meetings Law, provided in RS 42:1 through 42:12.

Yes [☒] No [☐]

Debt

It is true we have not incurred any indebtedness, other than credit for 90 days or less to make purchases in the ordinary course of administration, nor have we entered into any lease-purchase agreements, without the approval of the State Bond Commission, as provided by Article VII, Section 8 of the 1974 Louisiana Constitution, Article VI, Section 33 of the 1974 Louisiana Constitution, and LSA-RS 39:1410.60-1410.65.

Yes [☒] No [☐]

Advances and Bonuses

It is true we have not advanced wages or salaries to employees or paid bonuses in violation of Article VII, Section 14 of the 1974 Louisiana Constitution, LSA-RS 14:138, and AG opinion 79-729.

Yes [☒] No [☐]

We have disclosed to you all known noncompliance of the foregoing laws and regulations, as well as any contradictions to the foregoing representations. We have made available to you documentation relating to the foregoing laws and regulations.

We have provided you with any communications from regulatory agencies or other sources concerning any possible noncompliance with the foregoing laws and regulations, including any communications received between the end of the period under examination and the issuance of this report. We acknowledge our responsibility to disclose to you any known noncompliance which may occur subsequent to the issuance of your report.

Mary J. Adams Secretary 6/8/05 Date

Treasurer _____ Date

Ernest J. Turner President 6/8/05 Date